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May 10, 1984

Honorable John Vasconcellos, Chairperson
Assembly Ways and Means Committee

Honorable Alfred E. Alquist, Chairperson
Senate Finance Committee

Gentlemen:

MAY REVISION REVENUE REPORT

The Department of Finance has completed the May revision of revenues in accordance with your request to provide a complete update of the General Fund prior to the beginning of the Conference Committee on the Budget. We estimate that total revenues and transfers for 1983-84 and 1984-85 will be $197 million higher than reported in January when the Governor's Budget was introduced.

The revenues are based on an updated economic forecast which now reflects a more typical recovery pattern. Although we have done our best to estimate revenues for the balance of the current year, it is still possible that changes may occur as a result of activity in May and June, primarily in personal income tax withholding and refunds. An estimated $550 million of income tax refunds remain to be made, while a total of approximately $4.5 billion in General Fund receipts are expected for the same period. In addition, we will receive further input on our economic forecast at the Outlook Conference next week, at which we will be discussing the new benchmark data which has been coming in this week and last. It is still our plan, therefore, to provide you with an update on May 25 in order for you to have the benefit of more current data prior to completing your deliberations on the Budget.

As a result of the revenue changes included in this report and the expenditure revisions of May 4, we have identified an additional $413 million available for either expenditure or reserves during 1984-85.

The enclosed pages summarize the economic and revenue adjustments completed for your information. I hope that you will find the early release of the May Revision of Expenditures and Revenues to be helpful. I am available to discuss these revisions with you at your convenience.

Very truly yours,

JESSE R. HUFF
Director of Finance

Enclosure

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MAY REVISION

REVENUE REPORT

CONTENTS

	Page
General Fund Budget Update	1
The Economy	2
Economic Data (Table)	3
Revenue Estimates	4
Revenue Estimates (Table)	5

May 10, 1984

GENERAL FUND
BUDGET UPDATE
1983-84 and 1984-85
(In Millions)

	1983-84	1984-85
Prior Year Balance	-$521.3	$465.2
REVENUES AND TRANSFERS:		
As of January 10, 1984	$23,367.6	$25,825.5
May Revision Adjustments	263.4	-66.7
Total Revenues and Transfers	$23,631.0	$25,758.8
EXPENDITURES:		
As of January 10, 1984	$22,641.2	$25,076.4
Adjustments through May 4, 1984	3.3	-219.3
Total Expenditures	$22,644.5	$24,857.1
RESERVES	$465.2	$1,366.9
Carryover Appropriations	5.0	3.5
Economic Uncertainties	360.2	950.7
Los Angeles County	100.0	--
AVAILABLE FOR APPROPRIATION	--	$412.7

May 10, 1984

THE ECONOMY

The economic performance of the Nation over the past five months has been slightly stronger than expected when the Budget was originally prepared. Notable differences include the surge in homebuilding and auto sales during the first quarter this year, and the sharp rise in inventory rebuilding. The unemployment rate has fallen faster than forecast. Inflation has remained under control, leading to a downward revision in the consumer price index.

Perhaps the most significant revision has been in corporate profits. Both the third and fourth quarters of 1983 came in better than expected, a factor which contributes to the more moderate increase now forecast for 1984. The Budget had originally assumed that corporate profits for the Nation during 1984 would increase by 27.3 percent. We are now estimating the increase to be 16.2 percent.

The outlook for 1984 is relatively certain, assuming no disrupting developments over the next several months. Considerable uncertainty still surrounds 1985, however. If interest rates move up substantially, reflecting strong credit demands in the face of restraint in monetary policy, next year could see low growth at best, and a mild recession at the worst. In the absence of such pressures, the economy should continue to expand at a moderate pace. The latter situation has been forecast for next year, with the realization that additional information over the next several months may lead to revisions by the time the 1985-86 Budget is introduced.

California's economy has strengthened noticeably over the last several months. Employment gains, for instance, have accelerated, with major expansion in the number of construction, manufacturing, trade and service jobs. This has led to an upward revision in both employment and personal income for 1984 and 1985.

In April, as we were beginning the revenue estimates, the economic forecast included an estimate of personal income for the fourth quarter. Actual data were subsequently received from the Employment Development Department, indicating a much lower wage and salary total for the final three months of 1983. The magnitude of the change is reflected in the fact that average wages on a seasonally adjusted basis apparently declined for almost every sector. Because of this, the revenue estimates were adjusted to account for the difference at the same time the economic forecast was being revised. The economic forecast is summarized in the table on the following page and was the basis for the revenue estimates.

May 10, 1984

ECONOMIC DATA

	1984		1985	
	Budget	April Revision	Budget	April Revision
National data				
Real GNP: % change	5.6	5.9	3.2	3.6
GNP deflator: % change	4.3	4.2	5.6	4.6
Personal income: % change	9.2	10.0	8.3	8.4
Corporate profits: % change	27.3	16.2	16.4	8.6
CPI: % change	5.4	5.0	5.7	5.3
Housing starts: thousands	1730	1885	1632	1700
New car sales: millions	10.4	10.6	10.8	10.7
Wage & salary jobs: % change	3.9	3.9	2.3	2.9
Unemployment rate: %	8.1	7.5	7.7	6.9
California data				
Personal income: billions	$364.4	$365.8	$394.9	$398.8
Personal income: % change	9.7	10.2	8.4	9.0
Wages & salaries: % change	9.7	9.6	8.3	9.3
Housing units: thousands	170	185	155	183
Wage & salary jobs: % change	3.9	5.3	2.6	3.3
Unemployment rate: %	7.9	7.7	7.6	7.1
CPI: % change	6.0	5.1	6.0	5.6

REVENUE ESTIMATES

Overview

General Fund revenues and transfers for 1983-84 are expected to total $23,631 million, or $263.4 million above the Budget estimate. For Fiscal Year 1984-85, the total estimated revenues and transfers are $25,758.8 million, down $66.7 million from the amount shown in the Governor's Budget.

The revenue estimates for sales and personal income taxes take into consideration the latest wage benchmark data referred to in the above discussion of the economic forecast for California.

Sales and Use Tax	1983-84	+$75 million
	1984-85	+$110 million

General Fund revenues for 1983-84 are expected to be $75 million above the Budget estimate. The 1984-85 estimate is up $110 million.

These revisions are due entirely to economic factors. Growth of taxable sales in the first quarter 1984 outpaced a stronger than expected fourth quarter 1983, indicating that consumers appear confident that the economy will continue to improve. Particular strength occurred in auto and building sales.

Sales tax revenues for 1983-84 and 1984-85 combined are up $185 million, or 1 percent.

Personal Income Tax	1983-84	+$180 million
	1984-85	+$140 million

Personal income tax revenues are expected to be up $180 million for the current fiscal year and up $140 million for the budget year. For the current year, the increase reflects a change in the 1983 income tax liability estimate reflecting actual cash receipts experience. In addition, the withholding acceleration enacted in Chapter 323 of 1983 increased 1983-84 collections by approximately $90 million more than anticipated in the budget estimate. For the budget year, the increase is primarily attributable to two factors: the higher 1983 liability which is carried forward and better-than-expected personal income growth.

Bank and Corporation Tax	1983-84	-0-
	1984-85	-$370 million

Bank and corporation tax revenues are estimated to be the same in the current year and down $370 million in the Budget year. The shortfall in the Budget year is primarily due to a reduction in the estimate of 1984 corporate profits growth nationally from 27.3 percent to 16.2 percent.

GENERAL FUND REVENUE ESTIMATES
(In millions)

Source	Budget Estimate	May Revision	Difference From Budget Estimate
		1983-84	
Sales Tax	$8,575.0	$8,650.0	$75.0
Personal Income Tax	8,950.0	9,130.0	180.0
Bank & Corporation Tax	3,240.0	3,240.0	--
Other Revenues	2,160.0	2,169.0	9.0
Transfers	442.6	442.0	-0.6
Total	$23,367.6	$23,631.0	$263.4
		1984-85	
Sales Tax	$9,600.0	$9,710.0	$110.0
Personal Income Tax	9,860.0	10,000.0	140.0
Bank and Corporation Tax	4,290.0	3,920.0	-370.0
Other Revenues	2,046.4	2,102.8	56.4
Transfers	29.1	26.0	-3.1
Total	$25,825.5	$25,758.8	-$66.7
Change from 1983-84			
Amount	$2,457.9	$2,127.8	
Percent	10.5	9.0	